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SUBJECT: TURKMENISTAN'S MINISTRY OF ECONOMY AND FINANCE
SPECIFIC ON WHAT IT WANTS

11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: In an August 14 meeting at Turkmenistan's Ministry of Economy and Finance (MOEF), EEB Assistant Secretary Daniel Sullivan and his delegation met with MOEF First Deputy Minister Tuwakkammet Japarov. Sullivan encouraged more cooperation with the U.S. government and companies. Japarov detailed plans to diversify gas export routes and the economy in general to take advantage of regional opportunities. Japarov expanded on their plans to increase foreign direct investment. He expressed an interest in a bilateral investment treaty as well as a replacement of the Soviet-era treaty that resolves dual taxation. We need to respond. END SUMMARY.

13. (SBU) EEB Assistant Secretary Daniel Sullivan and his delegation met August 14 with Ministry of Economy and Finance (MOEF) First Deputy Minister Tuwakkammet Japarov. Sullivan said he wanted to encourage regional economic integration, expand the economic relationship between the United States and Turkmenistan while encouraging reforms, and promote energy diversification with the help of world-class U.S. companies. The opening of the Imamnazar border crossing station on August 13 was a symbol of U.S. commitment to regional integration as well as serving an important practical purpose. Economic trade between Turkmenistan and the United States could be expanded beyond energy into the areas of telecommunication and civil aviation. He said the United States could also help Turkmenistan reform problems with dual exchange rates and taxation and thereby lead to increased U.S. investment or even Turkmenistan's eventual entrance into the World Trade Organization. Sullivan stressed it was important for Turkmenistan to not just sell to one or two buyers, but to use world-class U.S. energy companies to open more complicated transport routes.

DIVERSIFICATION OF GAS EXPORTS GOOD FOR TURKMENISTAN

14. (SBU) Japarov said Turkmenistan had settled into a niche in the energy market by exporting its gas to Russia and then to Ukraine or Europe. Increasing gas exports to Russia helped it secure European energy supplies because by 2010 Gazprom cannot fulfill their contracts to Europe alone. Sullivan responded that instead of worrying about whether Russia could meet its contractual obligations to Europe, it would be in Turkmenistan's strong interest to simply sell its gas directly to Europe and profit from the considerable difference in the price that Russia buys gas from Turkmenistan and then resells it to Europe. Japarov also recognized that diversification of gas export routes was also good for Turkmenistan.

The new pipeline to China and supplies to Northern Iran were signs of Turkmenistan's commitment to this strategy. Trans-Caspian and Trans-Afghan pipelines were also on the agenda but were delayed by political or security factors. These were not small investments so implementation had to wait.

15. (SBU) Japarov said just as not having a single buyer or route for gas was good, having diverse industries was also important. He said MOEF was directly responsible for this diversity development project. Turkmenistan had great opportunities to export natural gas-based, value-added chemical products and could sell liquefied gas to Afghanistan, India, and Pakistan without pipelines. Japarov noted U.S. investment was increasing as trust grew in the country. For example, Coca Cola had invested \$18 million in a production factory. Mobil and Monument had also invested with production sharing agreements. U.S. principal trade was around \$200-\$300 million which had climaxed in 2005. Turkmenistan bought mostly technical equipment from John Deere, Boeing, and Case. General Electric had constructed thermal turbines in Dashoguz and Ashgabat. Japarov expected U.S. companies to participate in the Avaza tourist zone on the Caspian Sea as well. He said Turkmenistan had also already begun a revision of the customs clearance codes and internal

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laws to increase trade.

SERIOUS ABOUT STIMULATING INVESTMENT

16. (SBU) Japarov agreed with Sullivan that Turkmenistan needed to get away from Soviet principles, receive more investment, and that cooperation with the United States was key for these goals. He asked about signing a direct bilateral investment treaty (BIT) which would provide mutual protection to investors of both countries. Japarov said double taxation was also a problem, because the U.S.-Soviet treaty on double taxation was no longer applicable. The Government of Turkmenistan was developing a proposal. Japarov believed that the resolution of these problems would stimulate investment.

17. (SBU) Japarov stated that the IMF had recommended in its last series of meetings to eliminate the dual exchange rates. Consequently, the Turkmenistan government is looking at unifying exchange rates but the process must be gradual. He said many government agencies operate under the official rate and would be quickly devastated if they switched it immediately. The Ministry was monitoring and analyzing the potential effect. After that internal process, Japarov said, the Ministry would consult with other ministries to determine the wider effect. He also agreed that streamlining legislation, removing contradictory laws, and providing training seminars would be valuable.

WAYS TO MOVE FORWARD

18. (SBU) Sullivan noted that he would raise the issue of double taxation and a possible revised treaty with his colleagues at the U.S. Treasury Department, which was responsible for such issues. Sullivan noted that countries with a high level of cross-investment had the first priority for a negotiated bilateral investment treaty (BIT). Therefore, it would be helpful if Turkmenistan first improved its general investment climate to reach that level. He said the U.S. Embassy could pass a copy of a model investment treaty to illustrate what issues need to be worked through. Sullivan added since the U.S. Senate must ratify any treaty, deviating from the model was not recommended.

¶9. (SBU) Japarov emphasized that an increase in the bilateral relationship and foreign direct investment with the United States was very important to Turkmenistan. He understood that the treaty needed to pass the Senate but that this treaty would be important for U.S. companies as well.

¶10. (SBU) COMMENT: The exceptionally frank and specific nature of the conversation indicates that the Ministry of Economy and Finance has been given the "green light" to deal with the United States. And the fact that Japarov proposed a bilateral investment treaty and a revised treaty on dual taxation shows that they are willing to take concrete steps to start to improve the business climate. We need to respond and follow through. END COMMENT.

¶11. (U) A/S Sullivan cleared this cable.

HOAGLAND